



**Paving the Way Forward for Rural Finance
An International Conference on Best Practices**

Case Study

**Agricultural Lending Practices:
Methodologies and Programs**

CLUSA Zambia Rural Group Business Program

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Background

Zambia has excellent natural resources, with only 10% of the potentially arable land in use. However, after independence Kenneth Kaunda eventually created the one party state. Investment in agriculture was largely biased towards the maize production system. Various parastatals from seed, to fertilizer and marketing were the vehicles for government intervention. The Copper mines were a rich source of income until the fall in world copper prices in the seventies. It was a closed economy with severe exchange controls on imports, ensuring that local output was all consumed internally, even though this was not always efficient.

The end of the Second Republic in Zambia in 1991, brought numerous economic reforms. Many government run parastatals and agricultural cooperatives were privatised, and the government's role in agriculture was greatly diminished, although each year there is messy government involvement in fertilizer and maize supply. The Zambian agricultural sector has therefore changed from a command to a market driven economy in a very short space of time, with the exception of the maize fertilizer nexus.

This has been characterized by: -

Disappearance of support institutions, which were previously controlling marketing and credit. These institutions were either privatised, disbanded or closed, or simply went bust.

Crop price uncertainties and fluctuations occur in response to regional and local supply, whereas previously prices were fixed by government. This is mainly true of maize, which is the principal crop in most areas and the staple diet, but also relevant for other crops where global prices affect the principal producers of Zambia, and local farmers have no control over these effects or prices.

High inflation and currency devaluation lead to high interest rates, which have been in the 40-50% range for the last ten years. The additional factor for the agricultural sector is that imported input prices are indexed in US dollars whilst domestic farm gate prices do not increase in line with inflation.

Deepening dependency has fostered the tendency among farmers to demand the government to help them with their problems, to renege on credit when it is made available to them and to side sell to traders who arrive in the field with cash.

Government presence in the fertilizer maize nexus is politically motivated and very often politicians have participated in this activity in various ways.

Open borders have led to increased imports into Zambia, as these are cheaper than locally produced items.

There are however, new and lucrative opportunities available in some areas, and there are new traders and private businesses to serve the agricultural sector. The market is a fast changing and challenging environment. Out grower credit schemes are a fairly new innovation, and distrust exists between the farmers and agribusinesses.

Description of programme

The Cooperative League of the United States of America (CLUSA) has been managing on behalf of USAID, SO1 the rural group business programme in Zambia since 1996. CLUSA has a presence in Southern, Central, and Lusaka provinces of Zambia.

CLUSA Zambia initiated a Small Scale Out grower Scheme that has been addressing a critical but missing link between the farmer and the Agribusiness. CLUSA runs a

farmer Out grower scheme for smallholders who organise themselves into groups with the help of CLUSA group facilitators. There had been cooperatives before but these had not worked partly due to mis management.

The needs and concerns of all parties involved needed to be addressed before small scale out grower production could proceed.

The small-scale farmers main interest is how to access inputs and credit facilities, and how to secure a reliable market for the produce. Business development was hindered by shortage of disposable income for investment and purchase of consumables.

The agribusinesses main interest is increased profits, which can be met by small-scale production. However small-scale production attracted high collection costs, and an expensive extension system, and there was also the risk of side selling

The CLUSA solution was to establish primary village organisations called RGBs (Rural Group Businesses), who in turn organized into secondary structures called depots. The groups typically have 15-25 members; it has been found that larger groups cannot be managed effectively. The depots typically have 3-8 RGBs and take responsibility for the local management of all aspects of the out grower operation.

The programme helps farmers to access credit for inputs in addition to transportation and marketing surpluses. The credit component is a very important part of the programme as there is a lack of commercial lenders willing to issue credit to small-scale farmers in Zambia. Even if credit is available high inflation and currency devaluation ensure that interest rates are too high (approximately 40%) to make this economical for smallholders.

Mission statement

To increase rural farmers income through promotion of sustainable farming technologies among groups of farmers that are democratically controlled.

Date initiated

The programme was introduced in Zambia in 1996. Initially the programme provided loans to agricultural business projects in rural areas, then moved on to an out grower program in 1998. The initial areas of operation were Mumbwa and Chibombo districts in the Central Province of Zambia, and Monze and Mazabuka districts in the Southern Province of Zambia. The programme was initially fully financed by USAID, however, since 2002 further funding has been provided by IFAD/SHEMP, FAO and WFP in particular. The USAID funding for the areas of current operation expires in April 2004. Further funding is being sought to expand operations in other provinces of Zambia. CLUSA currently has farmers in Choma, Namwala, Monze, Mazabuka, and Gwembe districts of Southern Province; Chibombo, Mumbwa, Kapiri, Mukonchi and Serenge districts of Central Province; Kafue and Chongwe districts of Lusaka Province; and in Copperbelt Province.

Financial products

In all cases the loans provided are in conjunction with crops promoted by CLUSA. CLUSA chose crops with dependable markets and ensures that farmers do not rely on only one crop. Farmers prefer to grow maize as this is their staple diet and they have traditionally grown the crop. However the program includes other crops for cash sales. The maize price fluctuates depending on world and local markets. Last year in

Zambia there was a shortage of maize due to drought, in this instance the maize price was around \$200/MT. However this year there is an abundance of maize due to better rains and increased food distributions and the price is expected to be closer to \$100/MT.

Soya is also being promoted by CLUSA as a cash crop. Training in household utilisation of Soya is also given. Soya typically has double the protein content of traditionally produced legumes. As a cash crop the market price is less affected by external factors and has been steady for the last three seasons, while expected to be higher this season due to world shortages.

Cassava is also being promoted as an alternative to maize, as the crop is easy to manage, and requires no centrally organised external inputs. Until farmers in Zambia are independent in terms of food security it is unlikely that they will become significant producers of cash crops. Cassava can also be harvested from nine to eighteen months after planting and therefore is a good source of food during the traditional hunger months of January and February while waiting for the maize harvest.

During its lifespan CLUSA has experimented with many other crops, including Sorghum and Guar. These have not been so successful, mainly due to poor yields and small quantities of produce, making it difficult to develop credible business relationships into the export markets.

Other crops still being grown by some farmers with success are Paprika and Chilli. Paprika farmers have been linked directly to the agribusinesses under the distributor system.

Credit managed by credit Management Services (CMS)

CMS managed the credit system from 1996 to 2001. The out grower program was introduced in 1998 using the methodology below:

CLUSA extension staff (facilitators) spend six to eight months in the field helping to form groups and training them in group management, business and conservation farming techniques. The groups are self-managing and self selecting. When the groups are ready for credit, CLUSA advises CMS of the amount to be distributed to the group. The loan is in the form of agricultural inputs, which are delivered by CLUSA to the farmer depots. Groups must pay 10% as a down payment before loans are distributed. CMS prepare loan agreements and monitor loan recovery, with the cooperation of CLUSA field staff. Farmers are advised that CMS is a separate entity to CLUSA, and a profit making company, rather than a donor funded NGO. Farmers pay interest on the loans, which are quoted in US\$ to help avoid problems of the devaluating local currency. CLUSA field staff provide ongoing training in conservation farming techniques, marketing and any other requirements throughout the season.

CLUSA credit management

From the 2001/2002 season the out grower credit program has been managed directly by CLUSA. The methodology was similar to that used by CMS. CLUSA field staff were still operating in the field, forming and training groups. The group ideology was not changed, however now CLUSA prepare the loan statements and monitor loan recovery without the assistance of CMS field staff.

The reason for the change in management was mainly that CMS was expensive. The farmers did not seem to distinguish between CMS and CLUSA field staff, and there was a fair amount of duplication of work at the administrative level, which is now all handled by CLUSA staff. Unfortunately the first year that CLUSA managed the loans coincided with a severe drought in Southern Zambia, which affected recovery rates. However, if the Southern Province figures are removed from the total portfolio the recovery rate for the year increases to 58%

Group responsibility versus individual responsibility

Throughout the period that the loans were managed by CMS, group responsibility was advocated. However it was found that after the first season of working with a group in some cases the good farmers either left the program or only delivered enough crop to cover their own share of the group loan until the other farmers in the group had repaid. This led to fewer crops being marketed through CLUSA groups. Therefore it was decided that for old groups (i.e. groups who had been in the program for more than one year), group responsibility would be dropped. It is difficult to assess in the last season if this affected loan recovery, as recoveries seem much more sensitive to area last season. However, the change paid to farmers for excess crops marketed was much more substantial to groups where group responsibility was dropped. (Approximately \$12,000 compared to \$4,000)

Advantages and disadvantages of group responsibility

Advantages	Disadvantages
Higher repayment levels in most cases, especially in the first year	Farmers may only bring in enough to cover their loan if they know other farmers in the group will not repay
Easier for administrative purposes	Farmers unable to adequately screen

As an exit strategy and another alternative to group responsibility, in 2001/2002 and 2002/2003 a new approach has been to use Distributors.

In this last phase of the project the credit facility will be effectively phased out, and management passed on to either Agribusiness or the farmers themselves. (See sustainability below)

Dunavant distributor model

Dunavant Cotton has been working in Zambia for several years and has a strong presence in Mumbwa, where CLUSA has also been operating since 1998. The distributors deal individually with Dunavant and have contracts for the inputs that they receive. Dunavant previously only provided inputs for cotton production, but in conjunction with CLUSA and FAO in 2002/2003 season inputs for Maize and legumes were also supplied. The distributors chose who they work with independent

of Dunavant. In this case they will be working with the groups set up by CLUSA. The distributor distributes the inputs to his chosen farmers and is responsible for repayment of the credit individually. He receives commission based on the repayment of the loan.

The FAO inputs were distributed by CLUSA to their affiliated depots as in previous years. CLUSA and Dunavant worked together to screen farmers. The farmers paid an administrative fee to the CLUSA depots. Dunavant identified the distributors. CLUSA distributed the inputs to the distributors who in turn distributed to individual farmers. In short the loans have been ceded to Dunavant to manage under a revolving fund mechanism.

Farmers will pledge crops for loan repayment, and collection will be managed by the distributors. CLUSA depots have loan recovery committees in place who will work closely with distributors to ensure loan repayment. Crops pledged will be checked at field level to ensure early identification of possible defaulters. The farmers are aware that if loans are not repaid there will be no money to pay for inputs next year. All loan records are kept by Dunavant, although they will provide monthly reports throughout the season and a final report when marketing is completed (end of September).

Independent Distributors

In other areas where CLUSA is operating Dunavant does not have such a significant presence. In these areas individuals from the farming community have been identified by the CLUSA groups themselves, to manage the loan.

The distributors have a contract with the CLUSA depot for the inputs that they receive. The distributors work with the CLUSA groups, but again the distributor distributes inputs to farmers and is responsible for repayment of the credit. The depot rewards the distributor with commission based on loan recovery. The FAO inputs were distributed to the depots by CLUSA and the farmers paid an administrative fee to the depot. In this case the loans have been ceded to the depots to manage (with the distributors) under a revolving fund mechanism.

As with Dunavant, the farmers will pledge crop for loan recovery, the CLUSA distributors and depot committees will verify pledges and manage loan recovery. All produce is consolidated for collection at the depot. The depot therefore remaining the focal point of business activities.

Other Agribusiness Distributor systems

Some other agribusinesses in Zambia have also begun piloting the distributor system, working in conjunction with CLUSA, notable Cheetah Zambia, who purchase Paprika. In this model good CLUSA Paprika farmers are identified and trained by CLUSA in paprika production and management. The distributor then identifies his own farmers to work with and is responsible for their training. Cheetah provides inputs to the distributors with a contract for loan repayment. The distributor distributes the inputs and manages loan recovery. The distributor is rewarded with a commission based on loans recovered.

Farmer numbers

The numbers of farmers reached and values of loans disbursed is shown in the table below: -

Season	No. of farmers	Loans disbursed
1998/99	3,182	383,429
1999/2000	6,170	660,234
2000/2001	3,801	516,999
2001/2002	3,379	220,102
2002/2003	25,000 (FAO funded)	700,000
2002/2003	739	119,202

After the first out grower season in 1998/99 many more farmers wished to join the program and many new groups were formed. Unfortunately the large increase did not wholly consist of serious farmers. In Chibombo district in particular there were a large number of farmers who did not intend to repay their loans. Therefore in the 2000/2001 season a large screening exercise was undertaken and this resulted in fewer farmers receiving loans, and in areas where there had been poor performance, many groups were dropped. However the farmers who remained were provided with larger loans.

A further screening exercise was undertaken in 2000/2001 and again the numbers of previous farmers were reduced where performance was poor, and farmers from new areas were included.

Although the numbers of farmers have not drastically increased until the current season, when further funding was available to procure increased amounts of inputs, many farmers have left the program either through being screened out for various reasons including non payment of loans, or have moved on from the program as they are able to stand on their own feet, therefore the number of farmers collectively that have been reached is approximately 12,000 plus the FAO farmers in the current season.

Portfolio and activities supported

The portfolio is made up of small-scale farmers, organised into groups and depots. The only farmers eligible for the credit scheme are those working in CLUSA groups who are well managed and the amount of loans disbursed to each group are reviewed, firstly by the groups themselves, then the depots, and then finally CLUSA field staff. The activities supported are those supervised by CLUSA. The activities are all explained carefully to the groups and are based on Conservation Farming techniques. The Conservation Farming Unit (CFU), in Zambia has been working on these technologies to adapt them for use by small-scale farmers in Zambia for approximately seven years. CLUSA works closely in conjunction with CFU to provide farmers with the most up to date practises and training. In trials in Zambia it has been found that using conservation farming techniques can double yields of farmers.

The farmers are trained in the activities required before being provided with the loans. The main activity supported is growing of crops in the out grower program. The crops are chosen to ensure that there is a dependable market before the inputs are distributed to the farmers.

CLUSA works in Southern, Central and Lusaka districts of Zambia. In Southern province in particular the soils and climate are difficult for traditional farming, also the people in this area are not traditionally farmers, but cattle farmers. The Conservation farming technique advocated provides farmers in this area with a chance to become viable.

Most farmers in Zambia would not be able to effectively market their products individually, as the amounts produced are too small given the wide geographical distances from farm gate to market. CLUSA provides the link to markets, by using the economies of scale of groups and depots. Transporters and buyers are more willing to operate where they know they will receive a substantial amount of crop, rather than spending the time and energy to find a few bags from individual farmers.

Results and impact

The program has continually evolved throughout its lifespan. Various crops have been introduced and rejected for many reasons. In many cases the main reason for rejection of crops is the availability of a suitable and reliable market, and in some cases farmers cannot adapt to the management of certain crops.

The credit component of the program has also evolved throughout the project life.

Initially credit was extended to farmers on an individual basis, and then group responsibility was introduced with a certain amount of success. In the first year groups that had performed in other aspects, but had not fully repaid their loans were allowed to carry forward their loans to the next season. This was not a successful strategy as less than 5% of these carry over loans were repaid the next season.

CMS used bailiffs and court action on defaulters in each area, to show they were serious in loan recovery. However, this is a costly exercise to undertake and results are limited as most farmers have very limited assets.

The credit recovery rates for each year are shown on the table below.

RECOVERY PERCENTAGE BY AREA				
AREA	CLUSA 2001-2002	CMS 2000-2001	CMS 1999-2000	CMS 1998-1999
Chibombo	95	47	69	66
Chongwe	40	94		
Copperbelt	51	49		
Kapiri	73	27		

Luanshya	53	76		
Mufurila	32			
Mukonchi	78	60		
Mumbwa	57	63	91	96
Choma	60	100		
Mazabuka	33	93	72	33
Monze	5	52	88	54
Namwala	73			
Ipongo		93		
Fiwila		84		
TOTAL	53%	64%	77%	64%

Factors affecting loan recovery

Poor loan recoveries in Chibombo district seem to be related to attitudes in the district and lack of strong field staff. In the 2001/2002 season the portfolio for Chibombo was greatly reduced and CLUSA began working with a local distributor in the area. This distributor is an influential member of the community and has achieved 100% loan recovery in all years that he has been operating. He maintains a very high field presence and screens all farmers before accepting them to his project. He also obtains collateral pledges and has followed up on these in the past. In short he operates as a hardheaded businessman but still provide the farmers with a service they cannot get elsewhere. The farmers are therefore willing to work with him and ensure they stay in his program.

Unfortunately many areas of Zambia had severe drought during the 2001/2002 season and this adversely affected the recovery position in Mazabuka and Monze districts especially. However, some of the areas hit badly by the drought still managed to perform reasonably well, i.e. Choma and Namwala. In these areas the groups are very strong and are still continuing to repay their old loans although they are aware that the program is unlikely to provide inputs for the next season. These farmers seem to appreciate that if they prove themselves they will be able to obtain further benefits in the future, and will be able to help themselves to progress.

Mazabuka has always been a difficult area. The community here (and also to some extent in Monze) expect to be given handouts as there are many other NGOs providing free programs or soft loan handouts. The local politicians in the area also use handouts to assist their political careers. There are also several other work opportunities in the area (a local hospital and large commercial farmers), so farming is not the main source of income. The portfolio in Mazabuka is now reduced to only a few groups who are serious in the program.

Loan recoveries have been affected (in all years) by the following: -

- Staffing –it is important for farmers to find facilitators credible. This can be difficult where facilitators are younger than many of the farmers they are working with, or working with influential community members. This is addressed at initial staff training and management ensure that each area has facilitators with suitable skill before they are sent out to the field.
- Screening –is required at all levels but often farmers require time and experience to understand this. Social and family obligations tend to distort the

decision making process. Often it is only after several years that groups realise that screening is essential.

- Group responsibility – there is a tendency for farmers to perform well in the first year, then when they discover they will have to pay for group members who do not repay their loans, in subsequent years, good farmers may only deliver enough crop to clear their own loans, or simply leave the group.
- Low yields due to weather patterns, unfamiliarity with new crops, and incorrect application of techniques. The techniques take time to learn and adoption is often only after seeing results of other farmers labours.
- Priority of Maize for food security. Farmers tend to give more attention to their maize crop and leave the other crops until later. This is particularly true when farmers are unfamiliar with a crop, and exacerbated in years following food insecure seasons.
- Production of high value crops. Various high value crops have been introduced to farmers and these tend to ensure loan repayment. Paprika is an example of a good high value crop which farmers have been able to manage after training. In some areas where Paprika is not suitable Chillie has been introduced instead.
- Level of literacy of farmers. More educated farmers understand there are long-term benefits. Farmers with previous experience of commercial out growers performed better in most cases.
- Cooperation between CLUSA field staff and other players e.g. government and other agribusiness extension workers, other NGO staff.

Innovations in loan recovery

Strong group management appears to be the main requirement. Groups that are well organised, with literate respected committee members who are dedicated to the program, seem to perform well even in very harsh conditions.

The strong CLUSA training extension system is used to provide the groups with the skills they need to build capacity. Although the distributor system will be used as an exit strategy, the distributors will still need to work with committed farmers, and the CLUSA groups already set up will be ready to work with the distributors. In fact, most of the distributors are former CLUSA group members.

When, as in last season, loan recoveries were severely affected by the drought situation, the depot committees all proposed loan recovery strategies, and in most areas delivered as much as they could. Now that the farmers are beginning to have crop to market for this season, we are seeing loan repayments continue for last season in areas where the groups realise the importance of a good credit record.

The depots are trained to be business units. The depots chose which activities they will pursue and work out budgets and account for all profits, which they can then reuse. Some of the depots have bought animals, some a hammer mill, some trade other farmers crops, etc. The depots do not receive any funding for this exercise, but all the farmers pay a marketing fee and the depot can use this to start up business activities.

Social impact

Indicators of the social impact are shown on the table below. Figures are cumulative for the life of the project except where indicated.

Increased incomes of selected groups	\$1,800,000
No. of farmers adopting improved technologies	42,000
No. of hectares under Conservation Farming	15,500 (2002/2003 season)
No. of hectares planted in non maize crops	7,500 (2002/2003 season)
Value of agricultural commodities marketed	\$1,898,300
Value of agricultural inputs procured	\$3,643,000
Value of loans dispersed	\$3,267,000
Strengthened support institutions	
No. Of RGBS	299
No of RGB members	3,485
No of depot committees	97

When looking at increased income, the average figure does not highlight the real benefits possible from the program. During the 2000/2001 season one depot marketed over \$12,000 worth of crop, mainly Soya beans. This was after repaying all loans.

CLUSA has in place a nutritional and functional literacy program to tackle these issues. We train mainly women, in uses of Soya and cassava in order to broaden their knowledge and diversify dietary intake. At meetings, where meals are provided CLUSA often uses Soya or cassava in place of the usual maize meal.

Job creation is present in the fact that depots have a manager, security staff, and contact farmers, who are all paid by the depot. Groups also recompense their officials (See management structure below)

CLUSA also shares the cost of some extension workers with depots, the basis for this being that when the CLUSA field staff leave the area, these extension staff will continue and be fully paid by the depots at this point.

Sustainability

Due to the poor harvest through out the country, a food emergency situation was declared in 2002. CLUSA initiated a Food For Work project with World Food Program, to increase take up of Conservation Farming techniques in the districts. This involved providing Maize in exchange for farmers preparing their own land under

Conservation Farming methods. This increased the number of farmers working with CLUSA to over 30,000, from approximately 3,500.

Funding was sought and received from FAO, to provide 25,000 farmers with inputs. The credit will be managed differently in different areas, depending on the strength of the groups and other circumstances.

In Mumbwa the credit will be handed to Dunavant Cotton, as discussed above. The distributors are given the responsibility of recovering the loan value, such that it is returned to a revolving fund, so that maize inputs can again be delivered the following season. In the last two seasons, when other credit agencies have had poor results, Dunavant have seen recoveries over 90%. It is planned that Dunavant will continue to work with the CLUSA groups in Mumbwa with the revolving fund ceded to it, and increase this fund by working with the government and donors.

In other areas, the depots set up by CLUSA farmer groups will manage the loans as discussed above. The depots are expected to track the progress of the crop and market surplus production to recover beneficiary loans. The intention in this respect is to stimulate the establishment of decentralized revolving funds at depot level. The market linkage to be developed for the coming season is one where an input barter arrangement will be established, such that farmers will receive inputs estimated at around 50% of the marketed crop value. This will capitalize on lower fertilizer prices in the off-season, and empty trucks traveling to depots to collect crop. Should this exercise be successful, it will effectively negate the need for credit, as farmers will have effectively executed a cash transaction. The depots this season will be linked to a market broker in Lusaka. This broker – CHC Commodities, has been working with CLUSA for several years, and works on a percentage fee basis, so is therefore looking for the best prices as these influence their profits. CHC is willing to work with the CLUSA depots in marketing crops this season. The depots will arrange transport (with the help of CLUSA staff) and CHC will facilitate an input barter transaction. It is hoped the depots will then continue to work with CHC to market their crops in future years.

Challenges with project implementation and methods to overcome challenges

Traditionally there is a history of non- payment of debt and ‘loan forgiveness’ in Zambia. The model used to overcome this included: -

- Including Maize as food security in the input packs – most of the farmers in the program grow maize in addition to the crops provided by CLUSA
- Extensive extension system
- Local self selected groups with self management
- Structures (depot committees) to take responsibility for local management

Program management

CLUSA has in place a detailed management structure as shown on the diagram below.

The management structure is made up as follows: -

CLUSA head office – administration, marketing and training.

Administration handles all staff logistics, accounts, reporting, and general matters, and is funded by USAID.

Training staff are based at head office, but spend most of their time in the field training farmers and CLUSA facilitation staff.

Marketing, manages loan fund, handles logistics of crop marketing and input distribution, also identifies buyers, and negotiates contracts.

CLUSA Extension system

CLUSA facilitators – Employees of CLUSA

Work with farmer groups; facilitate group organisation, business and organisational training.

Rural Group Businesses

Typically have 10-20 members, have their own executive and animators, develop their own by-laws

RGB extension structure

Lead contact farmers – hired and paid by depot committee, contact person for all extension training.

Contact farmers – elected and paid by group, work with approximately 10 farmers each, provide extension and enforce management practices

Depot committee structure-

The committee represents 3-6 RGBs, consists of two members from each RGB, hires and pays Depot Manager for the depot.

Depot committee functions – screens groups wanting to participate in program, also screens individual members of groups, prepares and manages depot budget, provides a physical location for crop collection and input delivery, coordinates program in their area.

Management capacity

CLUSA Program Manager -George Allison – has over ten years experience in management and marketing in Zambia, in particular in the farming sector.

CLUSA Financial Advisor – Susan Parker – is a UK qualified accountant, with over ten years experience in accountancy and business management.

CLUSA Head Trainer – Reuben Banda – is an agronomist with over ten years experience in Zambian agronomy and research.

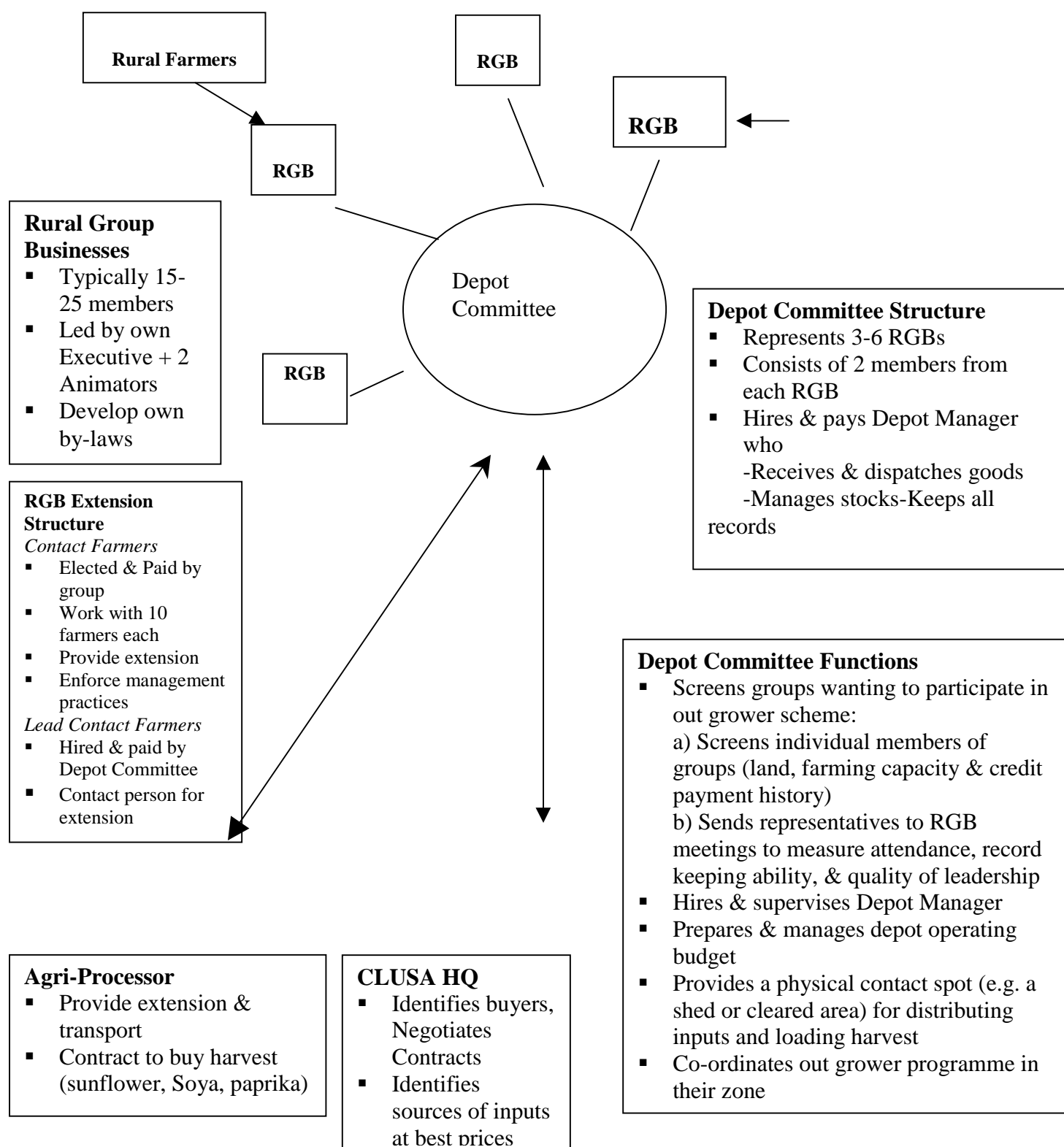
CLUSA Head Agriculturist – Angel Daka – is an irrigation and drainage specialist with over nineteen years experience in Zambian irrigation, agronomy and engineering.

Management, administration and security

Facilitators

- Paid by RGBP
- Work with 8-14 groups each
- Services: organise groups, provide business and organisational

RURAL GROUP BUSINESS OUTGROWER PROGRAM



Policy and donor recommendations

The program has looked at the issue of rural credit to smallholder farmers in Zambia in many different ways since its inception.

The original concept was of a separate entity providing credit to CLUSA farmers.

This did not seem to be perceived as such by the farmers and was expensive for the program. CMS did not have a large enough field presence to cater for the numbers of farmers in the program. Group responsibility was a large component of the program, but it was later realised that this led to some very good farmers leaving the program if they were unsure how their fellow group members would perform. This led to problems as the aim of the program is to provide market linkages and one farmer on his own is unlikely to be able to access reliable, decent market outlets.

Latterly, CLUSA managed the credit component itself, using the facilitators already in the field, and has begun introducing the distributor system. This enables CLUSA to work with a smaller number of individuals, who in turn use the extension system to work with many other individual farmers, who are already set up as CLUSA groups. The distributor is responsible for the credit extended to him, and chooses the groups and farmers he works with.

This system could be replicated in other parts of Zambia, where Dunavant has a strong field presence. The system can also be used by other agribusinesses and individuals where the Dunavant distributor system is not possible.

Lessons learned

- Strong field presence essential, distributors know their individual farmers better and the numbers of farmers they are dealing with are small.
- Strong group formation is required to ensure they have the capacity to expand and work in a business environment. Farmers need to screen group members.
- Strong local management structures such as depots are required to assist distributors in loan recovery.
- Some areas are difficult to work in and should be avoided.
- Some farmers and groups do not fully understand CLUSA principals and should not be included in the program (CLUSA is not suitable for all farmers, only those willing to work hard).
- Farmers' needs should be identified and included as part of programs.
- Market linkages need to be included to ensure farmers' efforts are not wasted. Farmers should not rely on only one crop; they should diversify and include food security crops as well as cash crops.
- Farmers located near to roads or local markets are more likely to have the opportunity to side sell, and need closer supervision than farmers where access is very difficult.

Final conclusions

It would appear that the distributor system is the way forward for Zambian small-scale farmers. In our pilot with an individual distributor in Chibombo last season, the loan was repaid 100%, and the distributor had excess crops to market (over US\$ 4,000 marketed). The Dunavant Cotton distributor system has been working well with repayment rates of over 90% in the last three seasons, when most other institutions fell much below this. It appears that the problems encountered with group

responsibility are reduced when there is one individual responsible for the credit. This person is rewarded by a commission for loan recoveries and knows that his future livelihood depends on his performance. Distributors are graded and receive more credit in successive years if they perform well.

Within the depot system, the credit is ceded by the depot committee to a number of commission motivated individual distributors.